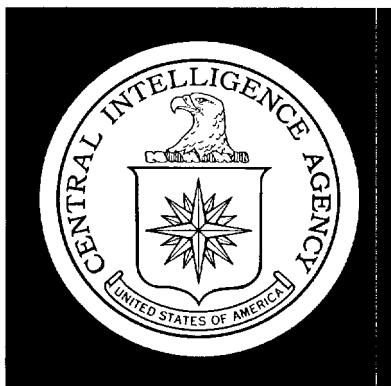


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*COMMUNIST CHINA: [REDACTED]

[REDACTED] Peking is in the midst of a leadership crisis.

[REDACTED] some sort of major leadership conclave in the capital began on 12 September and apparently continued for several days, since Premier Chou En-lai postponed scheduled meetings with foreign visitors through 15 September.

[REDACTED] Chinese Trade Office officials [REDACTED] they were being confined to their offices because something serious had happened "in Mao's circle."

The obvious implication [REDACTED] is that Mao Tse-tung has been physically incapacitated.

[REDACTED] a senior NCNA official [REDACTED]

[REDACTED] belittled rumors that Mao is dead, but added that in any case each individual should know his responsibilities and carry them out. [REDACTED]

A Ministry of Foreign Affairs official, however, reportedly stated at an embassy reception in Peking on 22 September that Mao is in excellent health. Nevertheless, neither his statement nor the appearance of Madame Mao at a banquet on 20 September can be taken as authoritative confirmation that Mao is not ailing. They could be easily interpreted to mean the reverse.

If Mao is dead or incapacitated, China's unsettled leadership coalition may have difficulty in immediately rallying around Defense Minister Lin

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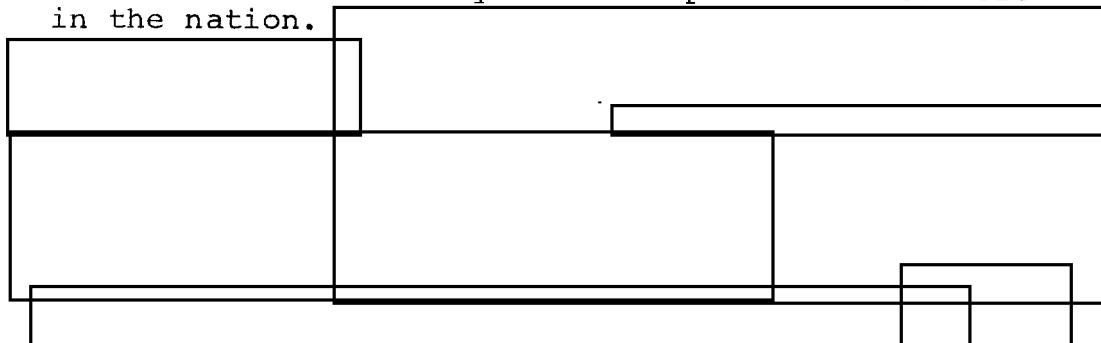
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Piao. Despite Lin's unprecedented affirmation as Mao's personal successor, there are serious questions about the extent and depth of support for him in important military and civilian circles. Although Lin's position as head of the military establishment is a vital one, his ultimate source of authority has always been Mao. In Mao's absence, Lin would have to adjust his working relationships with top central and regional military leaders who are powerful figures in their own right. Although Lin's efforts toward this end have been under way for some time, the process probably has involved considerable political bargaining and the future role of these leaders vis-a-vis Lin may well have been the subject of the recent discussions in Peking.

Lin's health has also been poor over the years and the possibility cannot be excluded that his physical condition, rather than Mao's, is behind the confusion at the top. Since the formal line of succession does not extend beyond Lin, his incapacitation would initiate further jockeying for position in China's ruling hierarchy.

At this stage, there is no evidence of a deterioration of security in the capital or elsewhere in the nation.



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*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Defense Intelligence Agency, Department of Defense.

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EUROPEAN SPACE DEVELOPMENTS: France and West Germany intend to continue, though at a slower pace, development of an independent European launch vehicle--Europa III--despite US offers of assistance.

Washington has offered both the use of space launchers for European satellites and the possibility of participation in US post-Apollo space projects. The Europeans in general are interested in the US offers, and believe they are very forthcoming, but France and Germany--the major stockholders in the Europa III project--are reluctant to abandon an independent European effort.

Both apparently are concerned that the use of US launchers would in effect give Washington a veto over the launching of a European communications satellite. Moreover, they do not consider the separate post-Apollo offer definite enough to terminate independent research and development. The Germans, in particular, believe they have to stick with the European program at least until it is clear that cooperation with the US would provide them access to highly advanced technology that they want. Moreover, they are concerned about upsetting relations with France, which wants an independent launch capability primarily as a means of establishing a regional European communications capability. [REDACTED]

[REDACTED]

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CEYLON: Military authorities are expecting trouble, possibly beginning tomorrow, at rehabilitation camps housing some 14,000 young people arrested in connection with the insurgency last spring. All the detainees, whom Prime Minister Bandaranaike has described as "misguided youths," reportedly expect to be pardoned and released in connection with a national holiday on Sunday. Government plans, however, call for the release of only 3,000 insurgents. The army is preparing to station armored cars at all camps to thwart escape attempts. The possibility of serious clashes exists--especially if rebel groups still at large try to aid in a jail break. The army, however, should be able to contain such clashes; there is little likelihood that they would endanger overall island security. [REDACTED]

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* * * *

MALAWI-MOZAMBIQUE: President Banda begins an official three-day visit to Portuguese Mozambique today. The visit--Banda's first--follows his trip to South Africa last month and represents his latest effort to broaden Malawi's contacts with white-ruled southern Africa. The President is expected to visit the controversial Cabora Bassa hydroelectric project, a symbol of Portuguese colonialism to much of black Africa and the target of insurgent efforts by anti-Portuguese guerrillas. Banda can be expected to use the trip to stimulate further the nascent interest among some moderate African states in a dialogue with southern Africa. [REDACTED]

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SWEDEN: In probably the biggest financial deal in Swedish history, two of Sweden's five largest commercial banks have announced their intention to merge on 1 January 1972. The two, Svenska Handelsbanken and Stockholm's Enskilda Bank, have combined assets of more than \$4.5 billion. This move, certain to be approved by the government, will concentrate control and ownership of Swedish banking and industry to an unprecedented degree in the hands of the Wallenberg family, which has a good working relationship with the Social Democratic Party. Through their existing ownership of the Enskilda Bank, the Wallenbergs now control nine of Sweden's 12 largest industrial firms. Their controlling interest in the new Skandinaviska Enskilda Banken will give them control of approximately 39 percent of Sweden's commercial banking activity. A larger combined resource base will enable the new bank better to meet the credit needs of industry, particularly the export sector.



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